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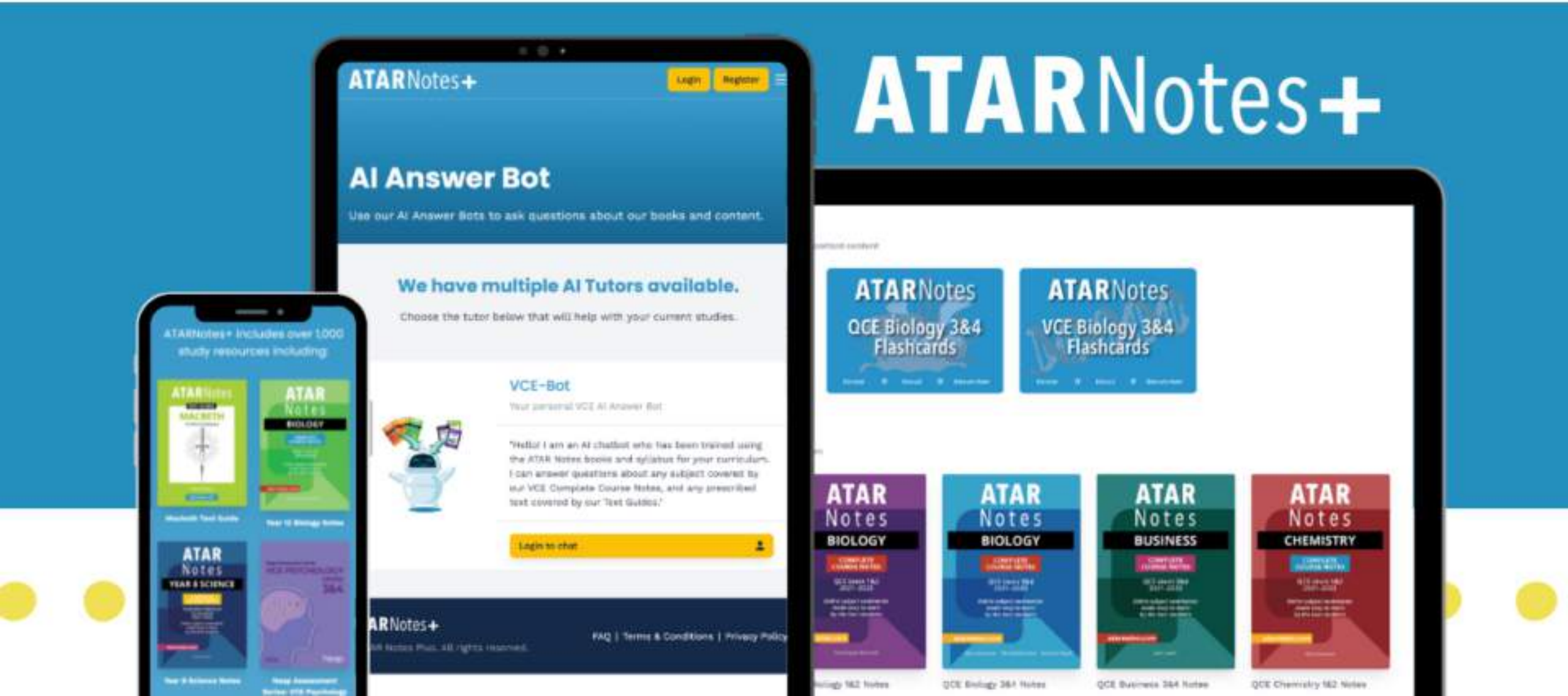


ATARNotes

Economics 3&4

ATARNotes January Lecture Series

Presented by:
Harini

INTRODUCTION

Hi!

Graduated in 2020

Bachelor of Clinical Science / Doctor of Medicine

My subjects:
Physics
Methods
Spesh
Chem
Englang
Eco

Overview

Key points from Unit 3

Not every single piece of content

Slides will be available for all of you after the lecture

Two content blocks

Overview

- Content block 1: Microeconomics
  - Key concepts and basic terms
  - Demand and supply
  - Market failure and government intervention
  - Living standards
- Content block 2: Macroeconomics + Study tips
  - Aggregate demand and aggregate supply
  - The three goals of government
  - Key skills
  - Study tips

"Economics is about studying money."

eCoNoMiCs iS aBoUt sTuDyiNg mONeY

SCARCITY

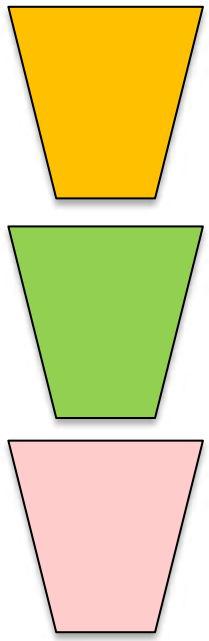
"There is a **limited** amount of **resources** that can be used to service the **unlimited** **needs and wants** of society."

- Opportunity cost
  - There is no way a limited amount of resources can service unlimited desires of society because ***using a resource for one purpose prevents it from being used for another purpose.***
  - The value of the "next best option"

- Utility/satisfaction
  - Kind of like a measure of **usefulness or happiness**
  - People always want to maximise their utility or satisfaction

~~*ATARCha*~

My top bubble tea list:



Mango tea with white pearls

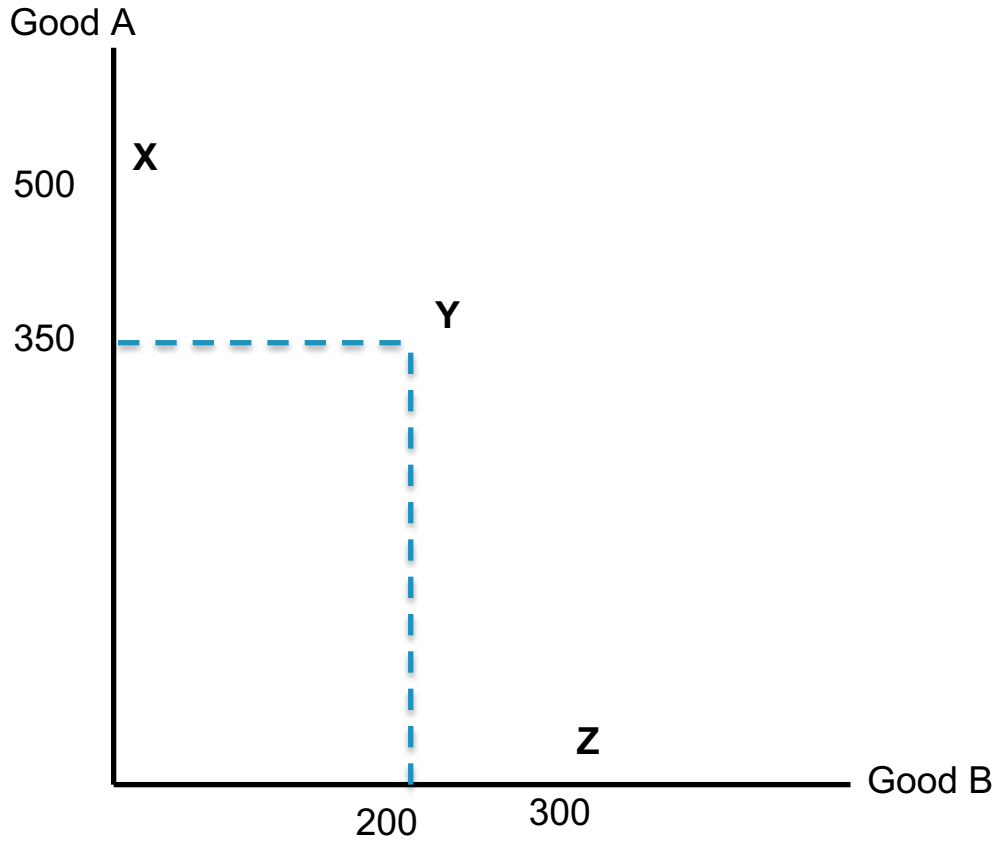
Passionfruit green tea

Royal pearl milk tea

- All of them are priced at $5
- Which flavour am I going to buy?
- What would my opportunity cost be?

- The Production Possibility Frontier/Curve (PPF/PPC)

- Fixed quantity of resources in the economy
- Only produce two products
- No international trade
- The curve illustrates ***an economy's possible production in a single point in time***



Perfectly Competitive Markets

Market structures in the study design?

- A market is a place where buyers and sellers meet to exchange goods and services.

- A PCM is a certain type of market structure that we use as a model for a lot of Eco 3&4.

Perfectly Competitive Markets

- Many buyers
- Many sellers
- Act rationally: buyers maximise satisfaction and sellers maximise profits
- Perfect market knowledge (also called full information)
- Homogenous products
- Little to no barriers to entry and exit
- Little to no government intervention

What does this mean for our market?
Lowest prices possible, sellers are price takers

Law of Demand

- Demand is a representation of how much the consumer is **willing and able** to buy of a product at different prices.
- As price **increases**, the quantity demanded **decreases**, and as price **decreases**, the quantity demanded **increases**.

Why?

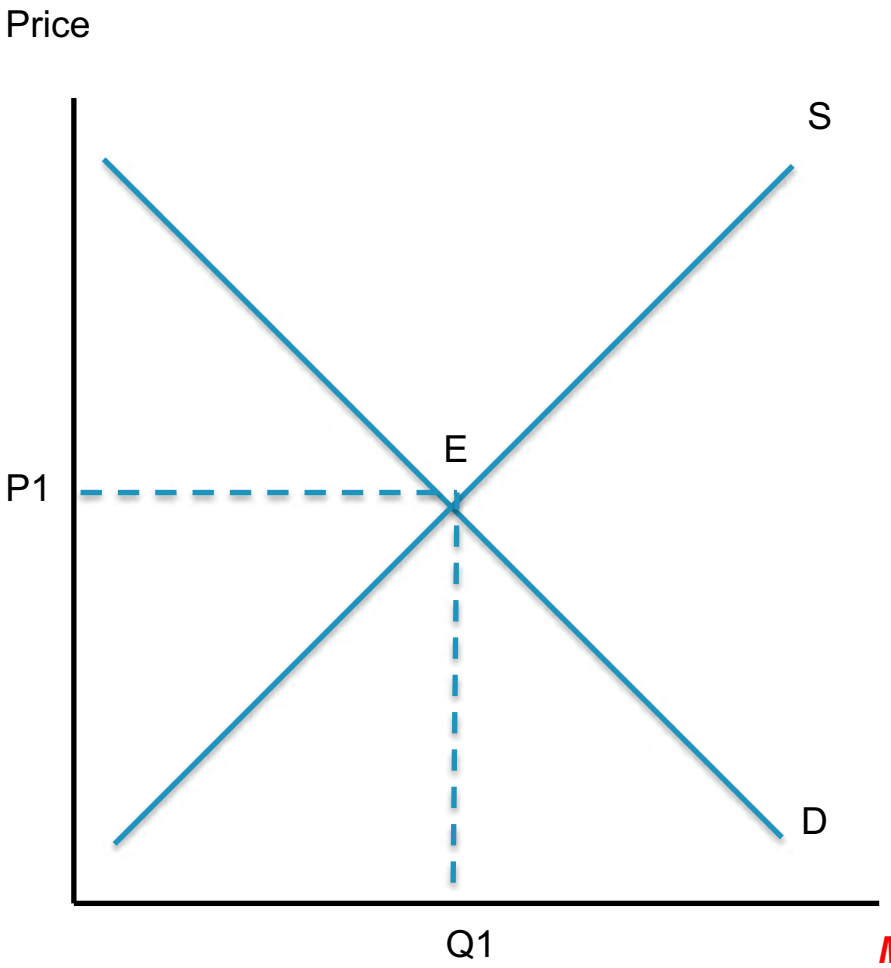
- Income effect (richer people buy more)
- Perceived utility (is it worth that much?)
- Diminishing marginal utility (do you really want 100 ice creams?)
- Substitution effect (buy a milkshake instead)

Law of Supply

- Supply is a representation of how much the producer is **willing and able** to supply of a product at different prices.
- As price **increases**, the quantity supplied **increases**, and as price **decreases**, the quantity supplied **decreases**.

Why?

Demand & Supply Graphs



Equilibrium

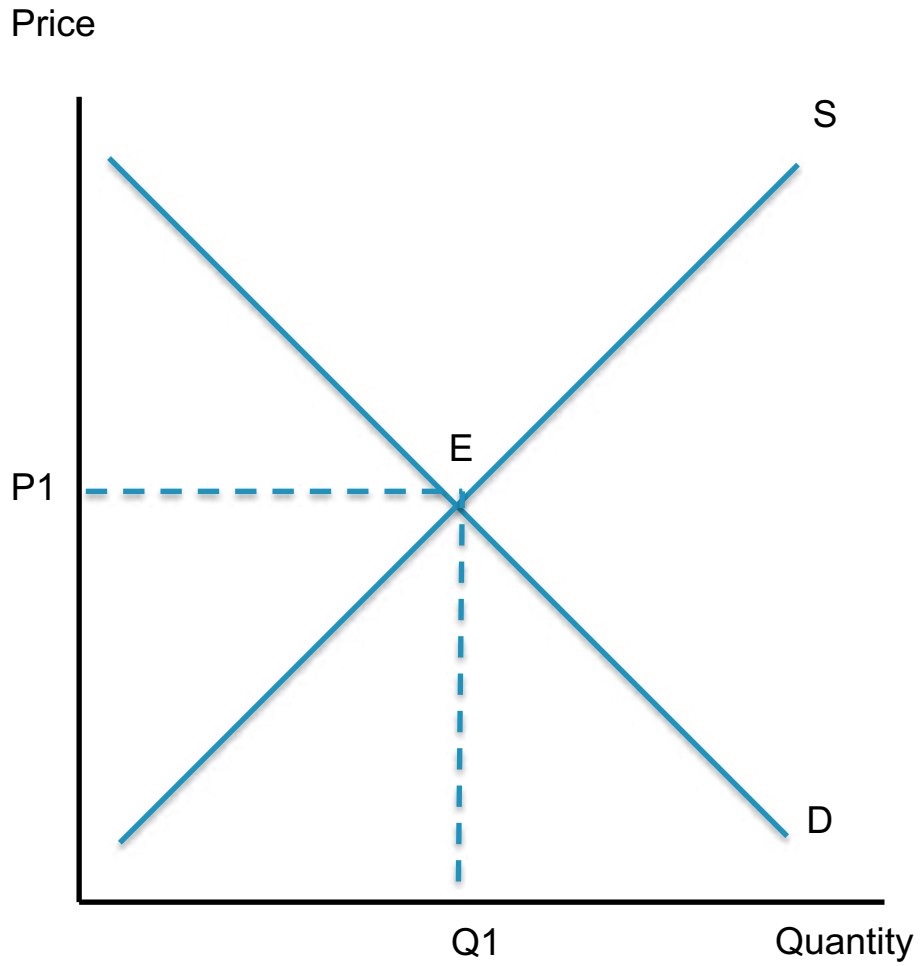
- The point at which **quantity supplied equals quantity demanded** and the market clears.
- There is no **shortage** and there is no **surplus.**

More details on graphing later on!

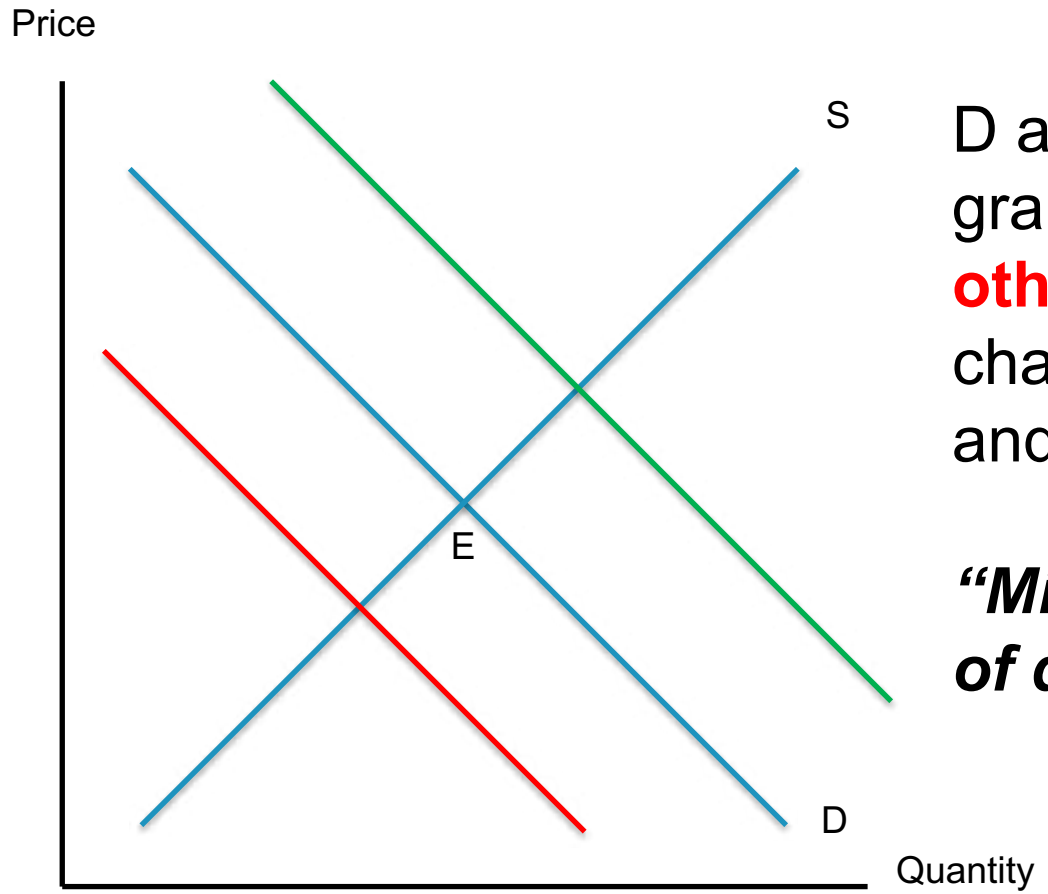
Demand & Supply Graphs

- Shortage:
- Suppliers see the opportunity to get that cashmoneyyyy
- They raise the price

- Surplus:
- Suppliers want to get rid of excess stock
- They lower the price



Demand & Supply Graphs



D and S can shift on our graph if **something other than price** changes that affects D and/or S.

=

"Microeconomic factor of demand/supply"

INCREASE

DECREASE

Demand & Supply Graphs

SHIFT OF LINE	MOVEMENT ALONG LINE
INCREASE	EXPANSION
DECREASE	CONTRACTION
DEMAND	QUANTITY DEMANDED
SUPPLY	QUANTITY SUPPLIED

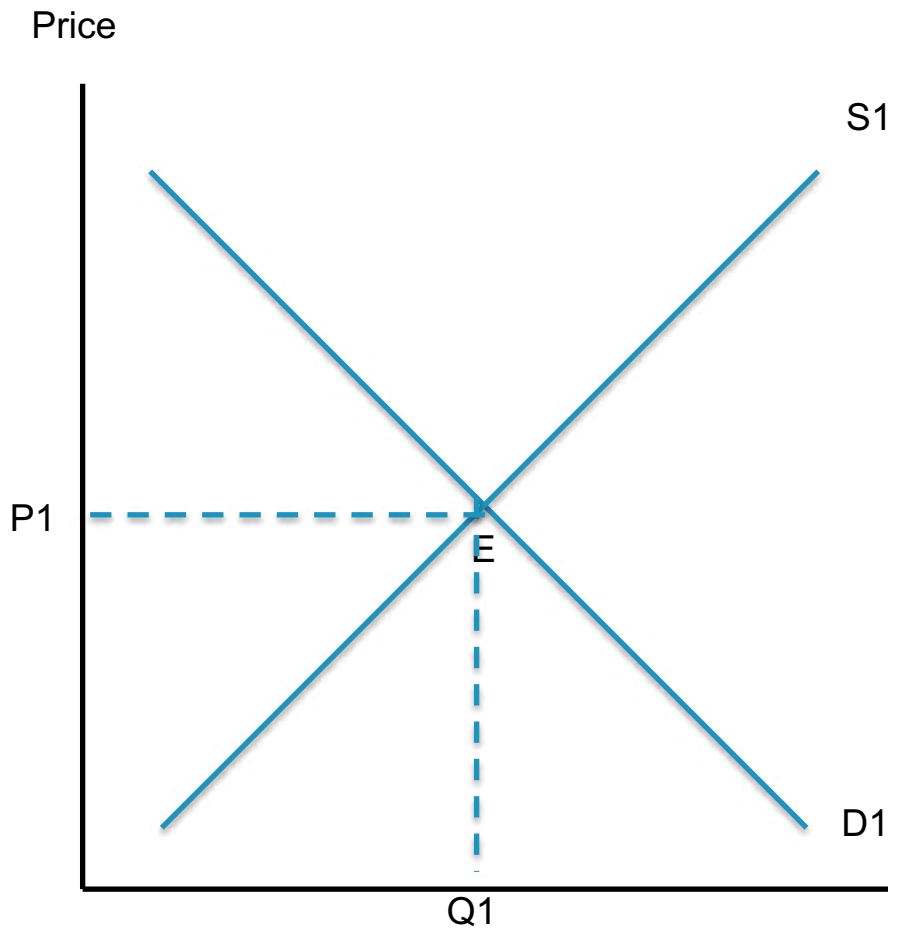
Demand & Supply Graphs

Example SAC/Exam question:

A period of very strong economic activity throughout ATARLand lead to an increase in incomes throughout the country.

Explain how this change would affect ATARLand's ice cream market. (3 marks)

Demand & Supply Graphs



Example SAC/Exam question:

Milk prices in ATARLand become much cheaper after a particularly good year for farmers.

Explain how this change would affect ATARLand's ice cream market. (3 marks)

- Things don't always go to plan…

MARKET FAILURE

- **Externalities of consumption/production**
- Public goods
- **Common access resources**
- **Asymmetric information**
- Government failure

- When a transaction is made, the demander and supplier aren't the only ones who are affected
- E.g. Cigarettes/alcohol?

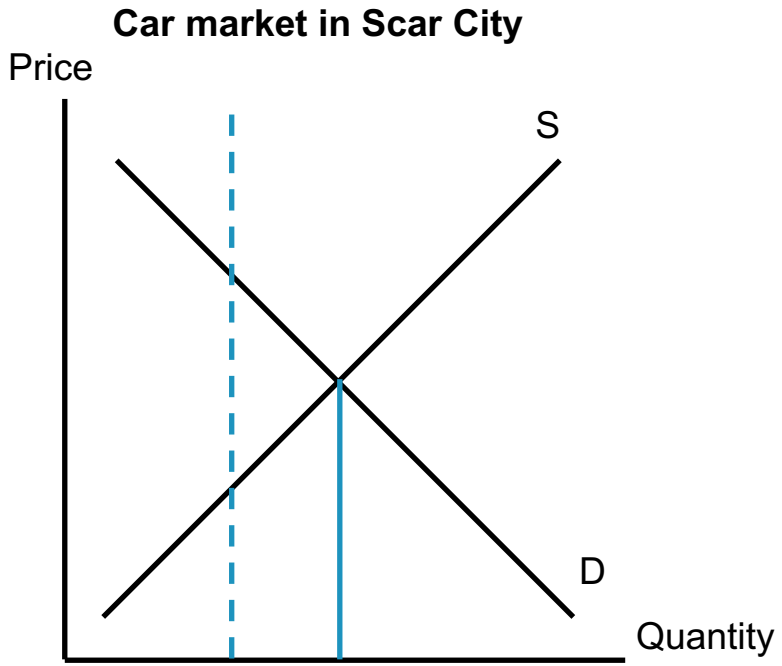
- This means that:

Social cost > private cost

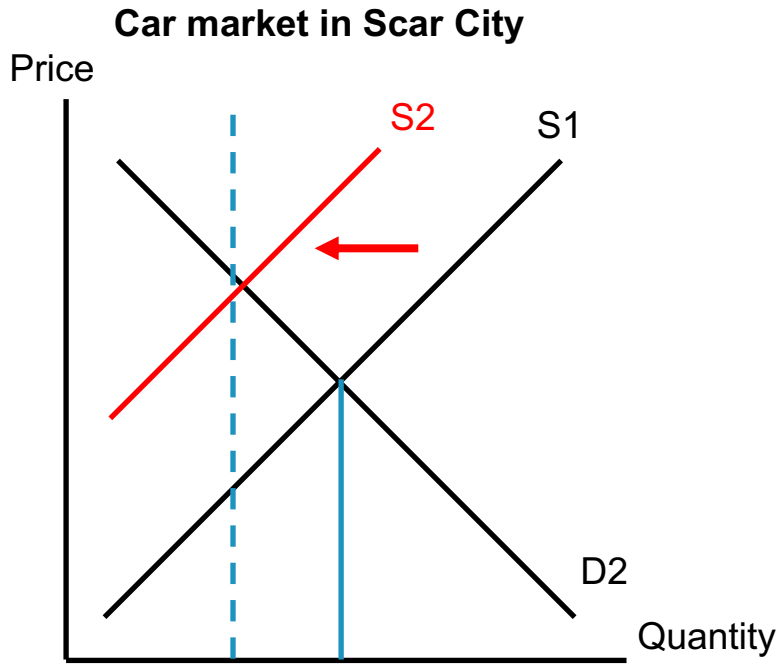
- We are not at the socially optimal/Pareto optimal equilibrium

- Here's an example...

A river runs through ATARLand that flows from Scar City to Elasti City. Car factories in Scar City are dumping their toxic waste in the river, which is damaging the crops grown by farmers in Elasti City.



- The government of ATARLand might impose a tax on car producers in Scar City based on the amount of waste they dump into the river.
- ***How else could the government fix this issue?***



Common Access Resources

- Usually related to sustainability
- **RIVALROUS**: meaning the consumption of the product by one person prevents another from consuming it
- **NON-EXCLUDABLE**: meaning nobody can be prevented from consuming the product with a price
- Once again, the market equilibrium (private eqm) has a quantity traded that is too high: we are not at the Pareto equilibrium.
- Government reacts in a similar way to negative externality.

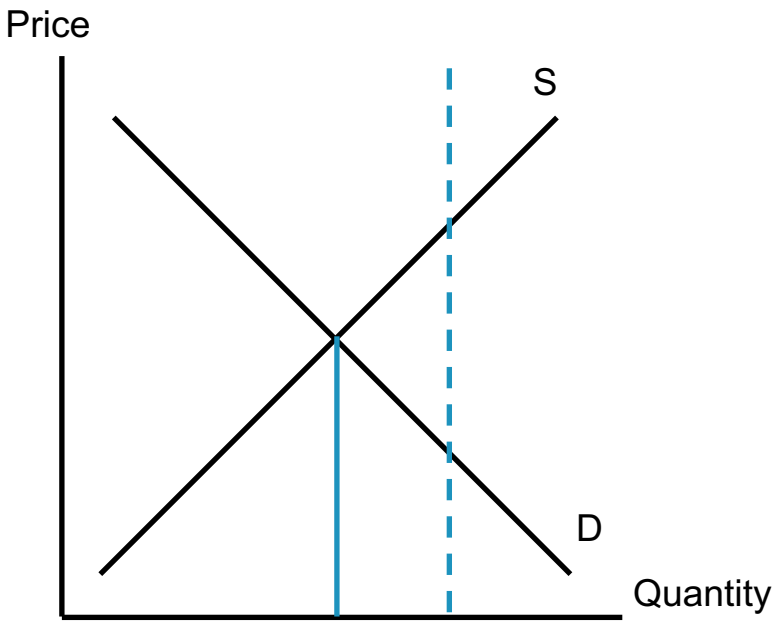
- In a PCM, one of our assumptions is “perfect market knowledge”, but in the real world, this isn’t always the case.
- When **some economic agents do NOT know as much as everyone else**, they can’t maximise their utility properly.
- Example: the Global Financial Crisis!

Government Intervention

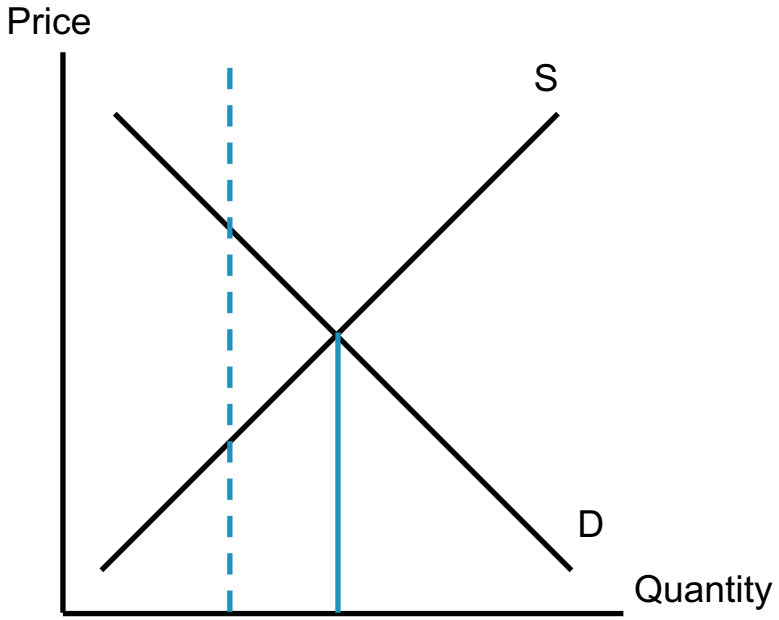
- **Taxes**: imposing a tax means somebody has to **pay the government money** (think of it as paying the social cost)
- **Subsidies**: providing a subsidy means **the government is giving somebody money** (think of it as paying for the social benefit)
- **Quotas**: imposing a quota means **only a certain amount** of a good or service can be produced/consumed
- **Bans**: imposing a quota of zero i.e. production/consumption is **illegal**
- **Other…**

Government Intervention

- Subsidy



Quota



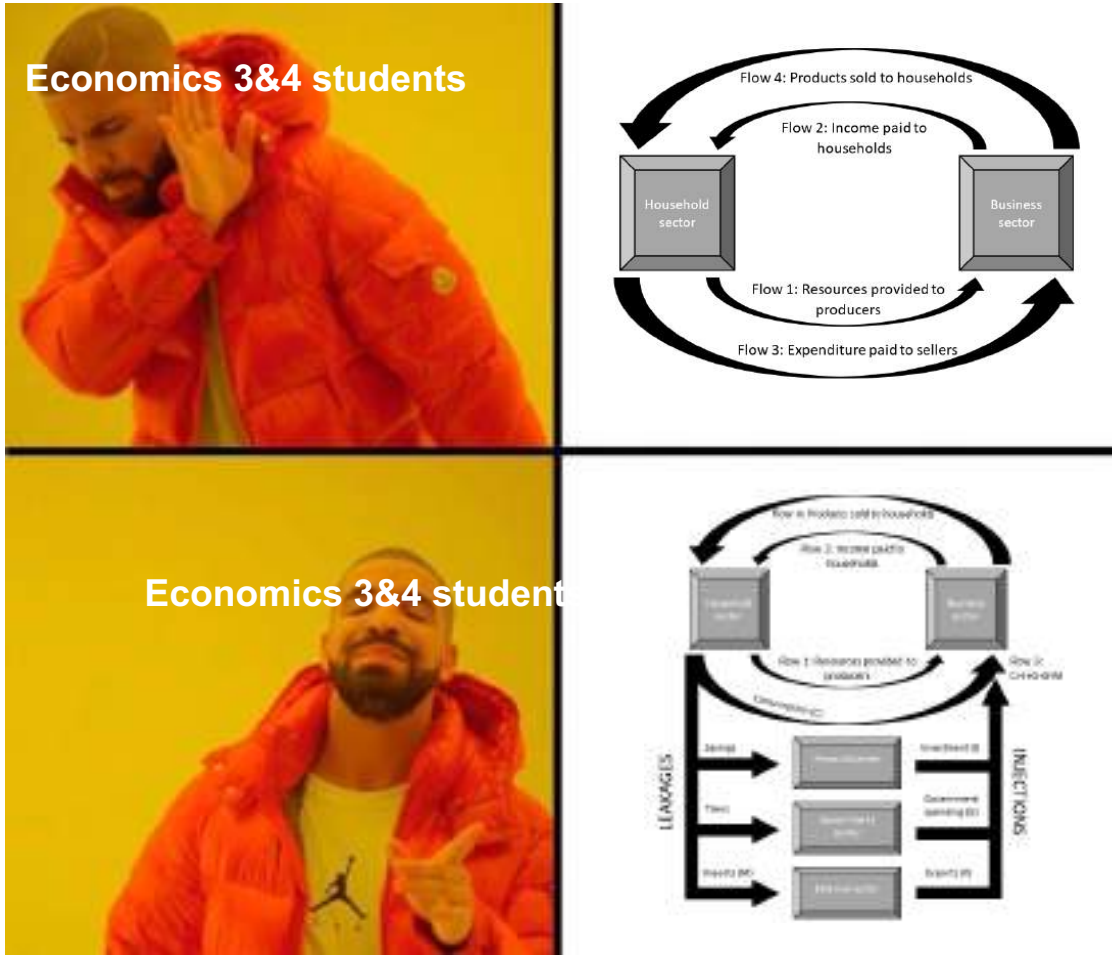
Living Standards

- Essentially how happy the people living somewhere are:
  - **Material standards of living**: relate to the ability of households to access (afford) goods and services. Material living standards are **measurable** using various national statistics.
  - **Non-material standards of living**: are very **difficult to measure**, as they relate to intangible concepts of safety, self-fulfilment, social satisfaction and the like.

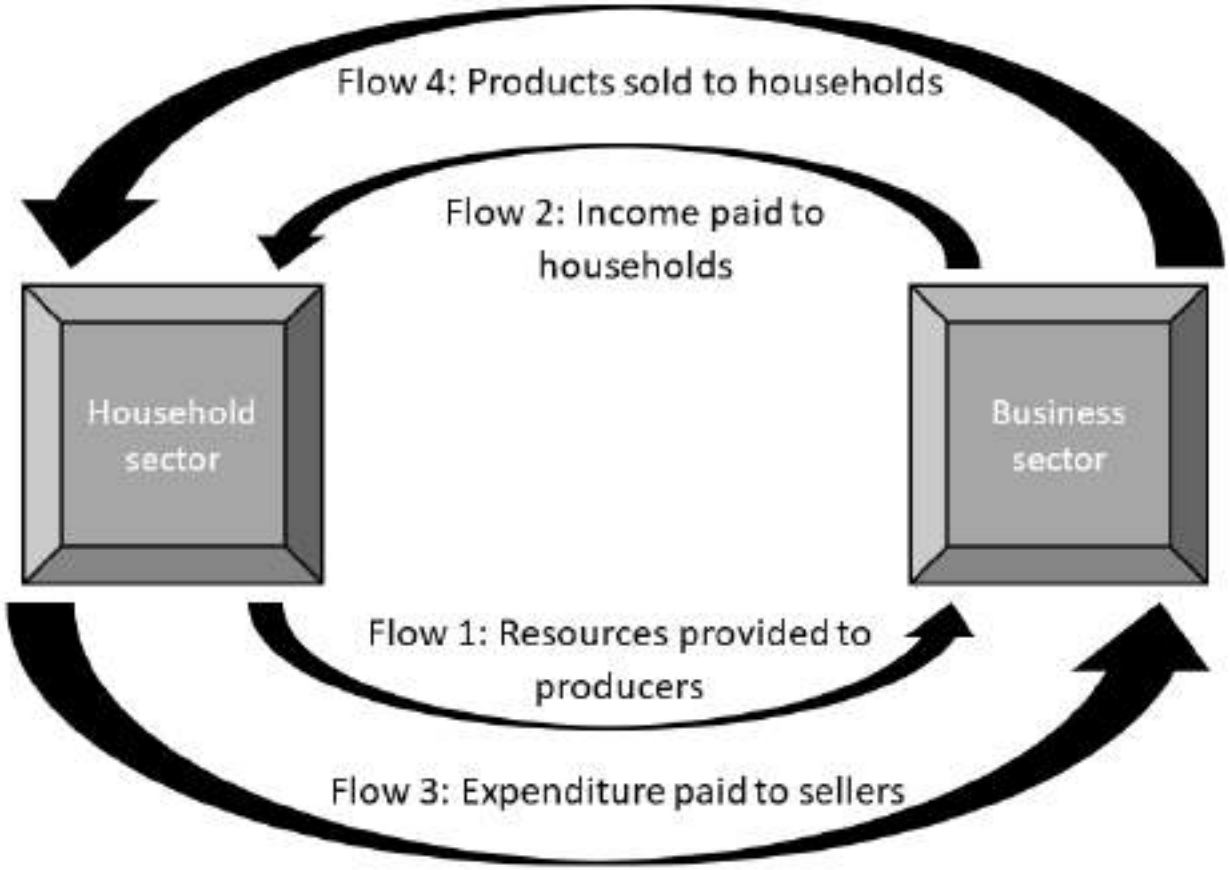
- Earlier we wanted to maximise utility, but now we want to maximise living standards.

What is Macroeconomics?
Macroeconomics is the study of the economy on a **large scale**, studying **economy-wide** phenomena instead of merely market/industry specific phenomena, as in microeconomics.

Circular Flow Model

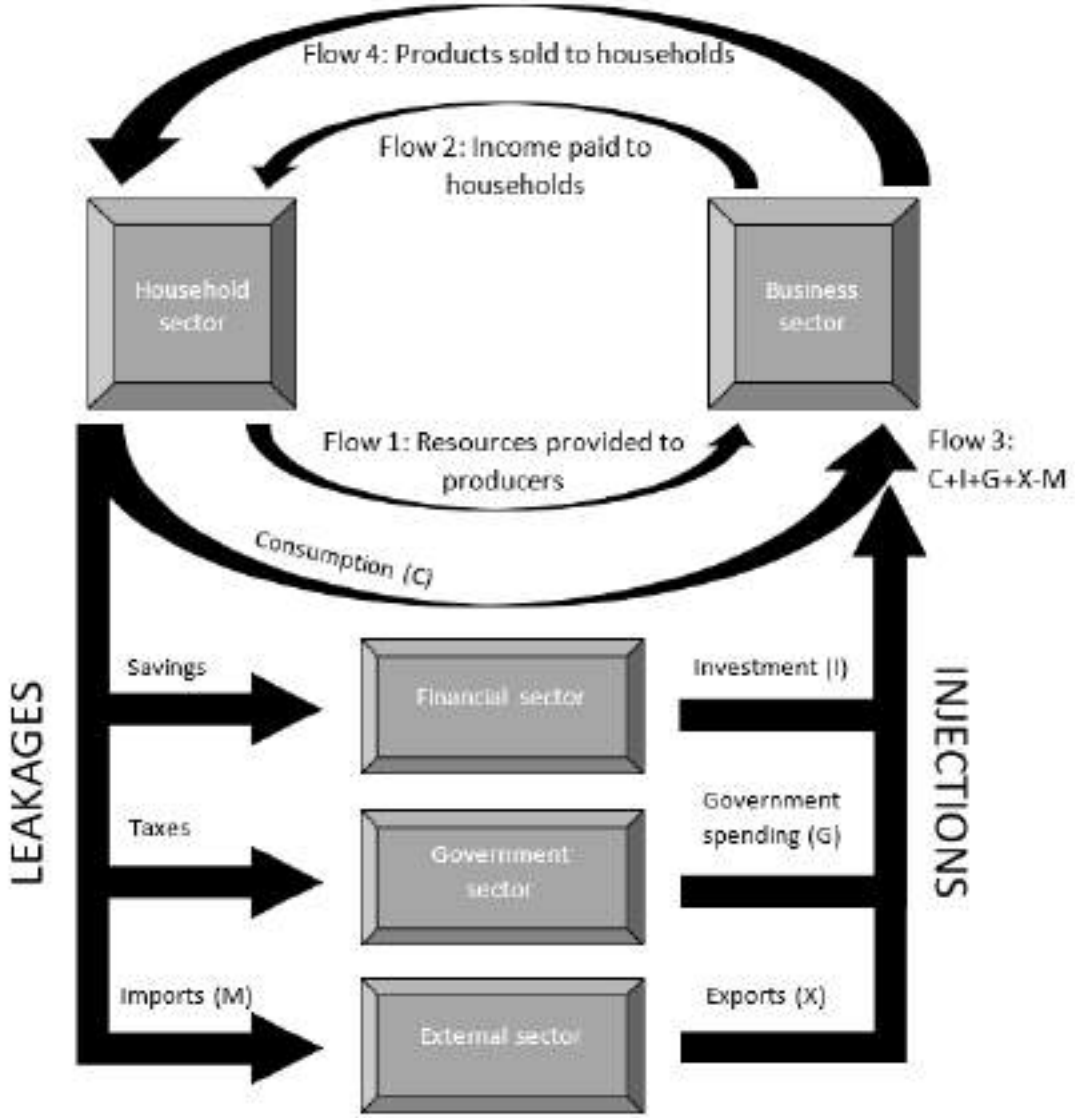


Circular Flow Model



Do you spend ALL of your money on consumption as soon as you get it?

Circular Flow Model

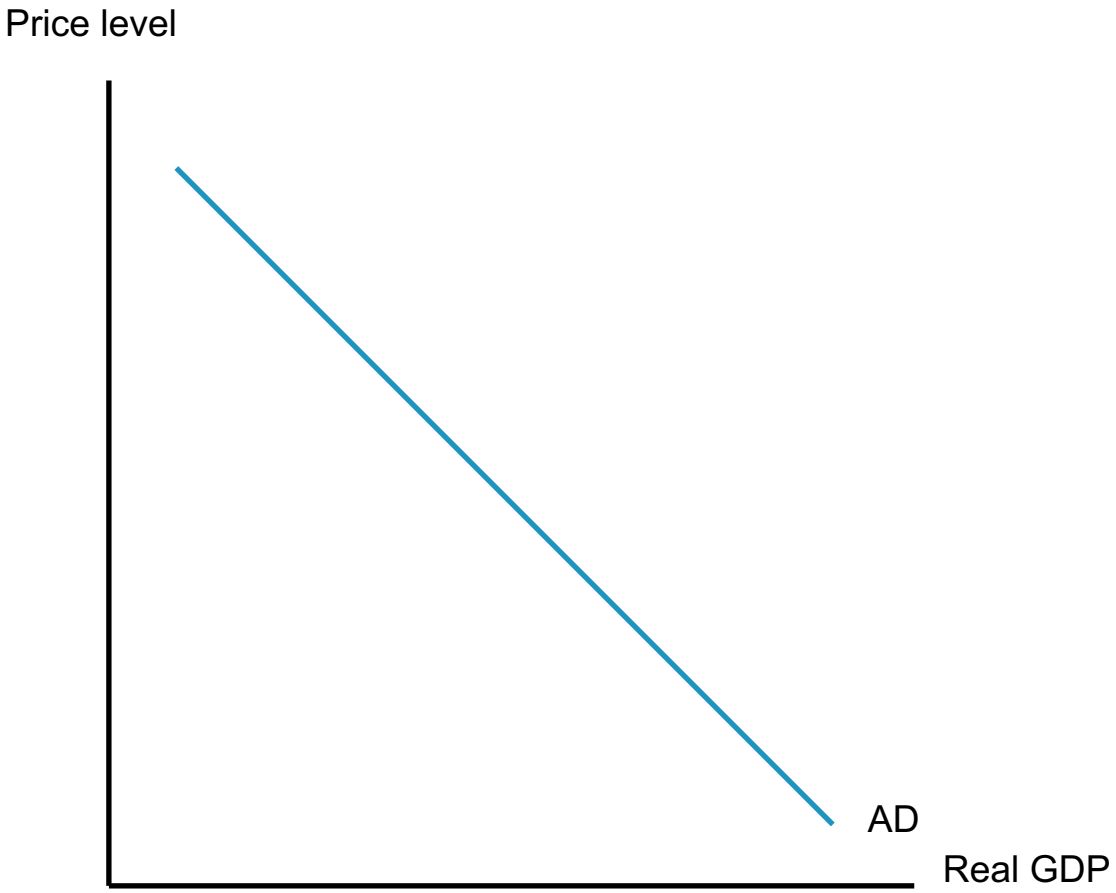


Aggregate Demand (AD)

Consumption (C)
+ Investment (I)
+ Government demand (G)
+ Exports (X)
- Imports (M)
Aggregate demand (AD)

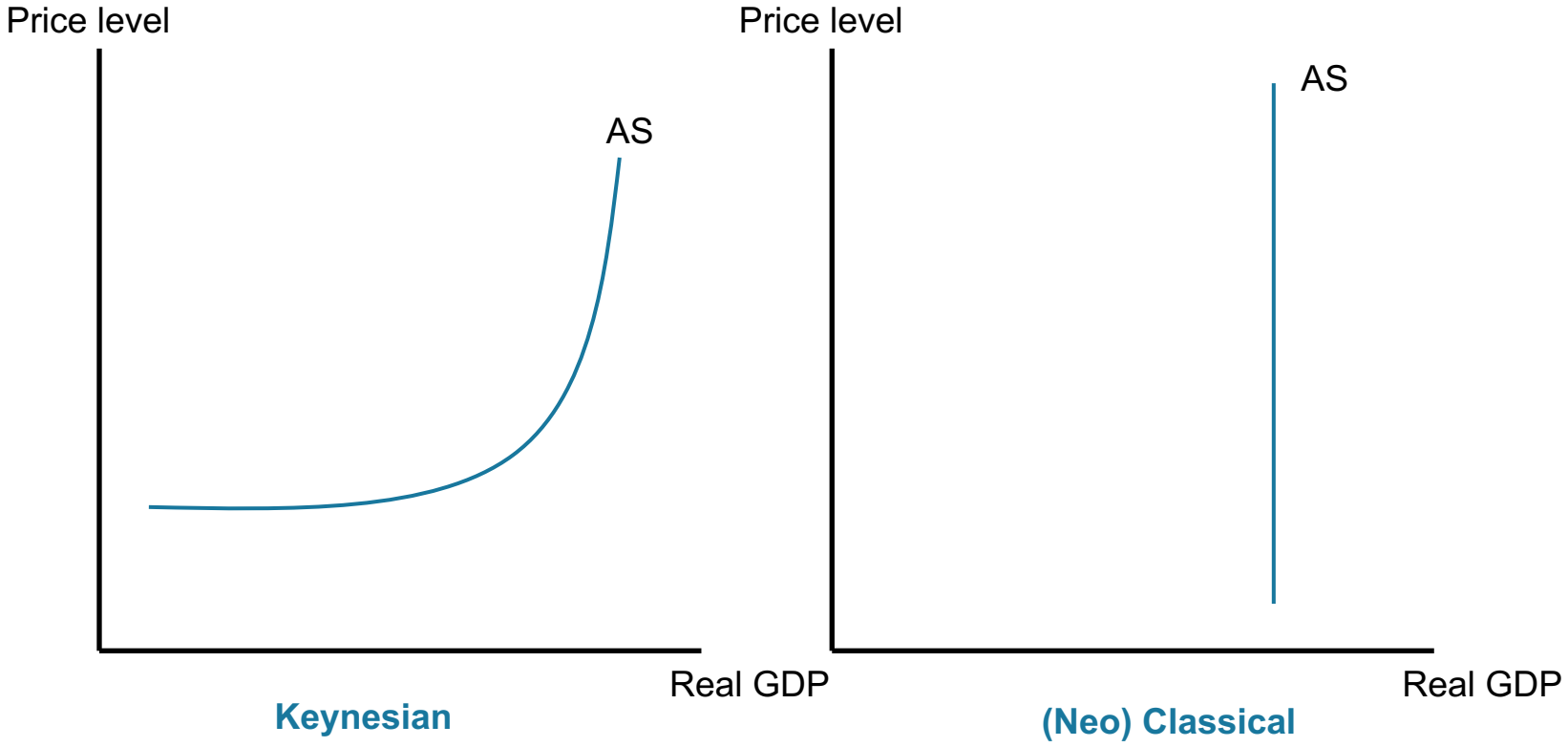
AD = C + I + G + X - M

Aggregate Demand (AD)

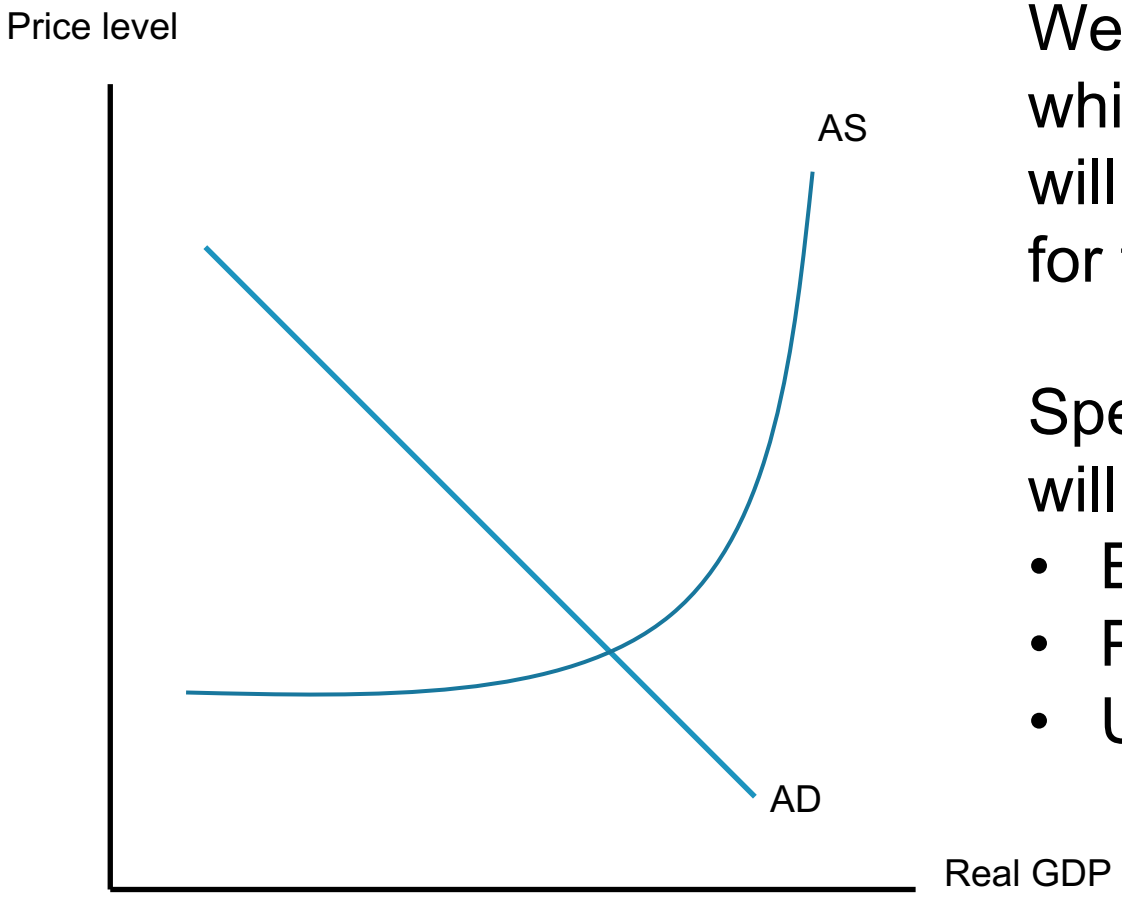


Aggregate Supply (AS)

- The total value of goods and services that **all producers** in Australia are willing and able to supply.



AD and AS

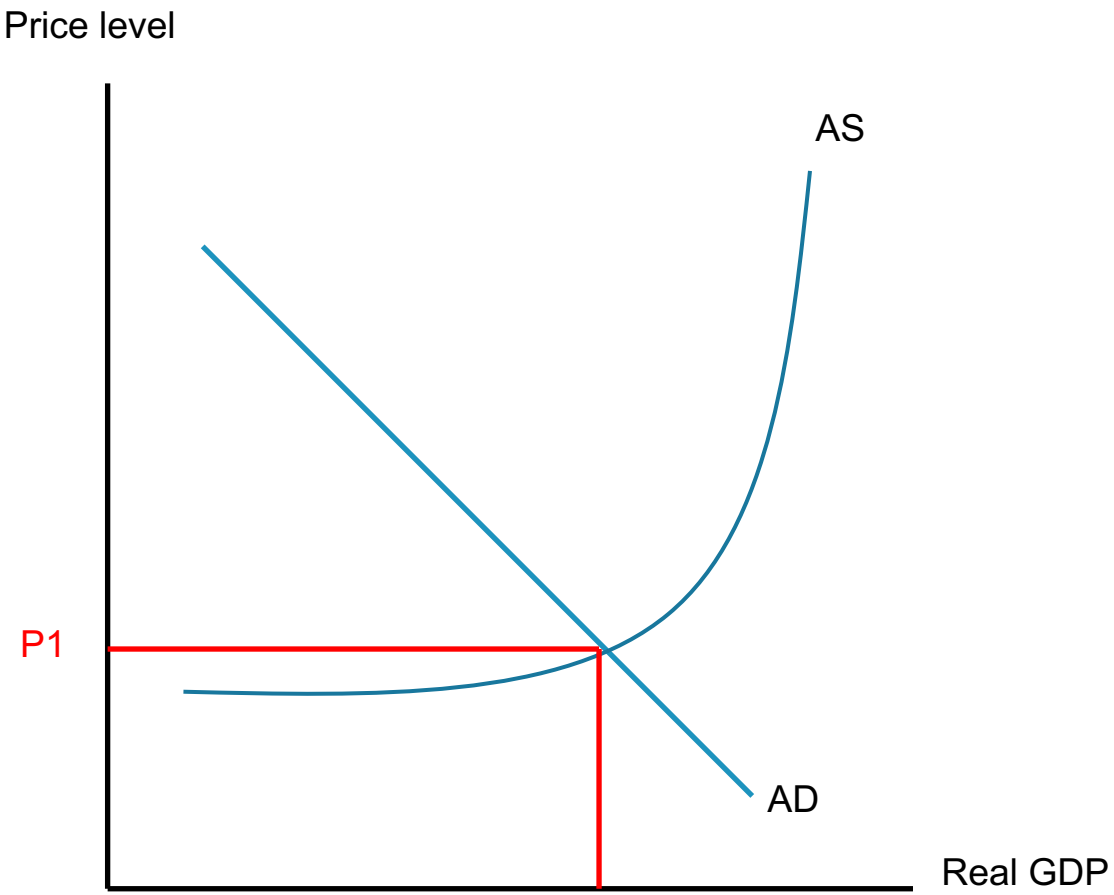


We now see that factors which affect AD and AS will change outcomes for the economy!

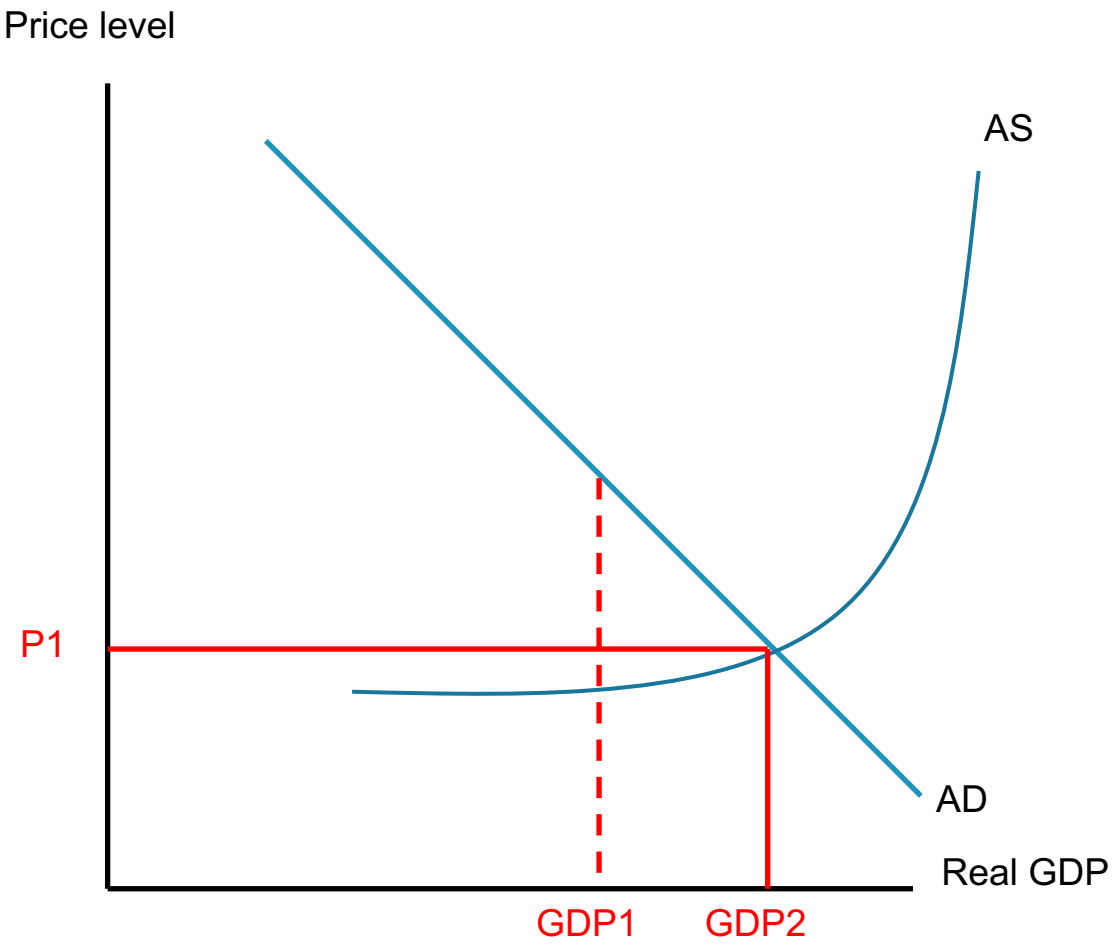
Specifically, AD and AS will have an effect on:

- Economic growth
- Prices
- Unemployment

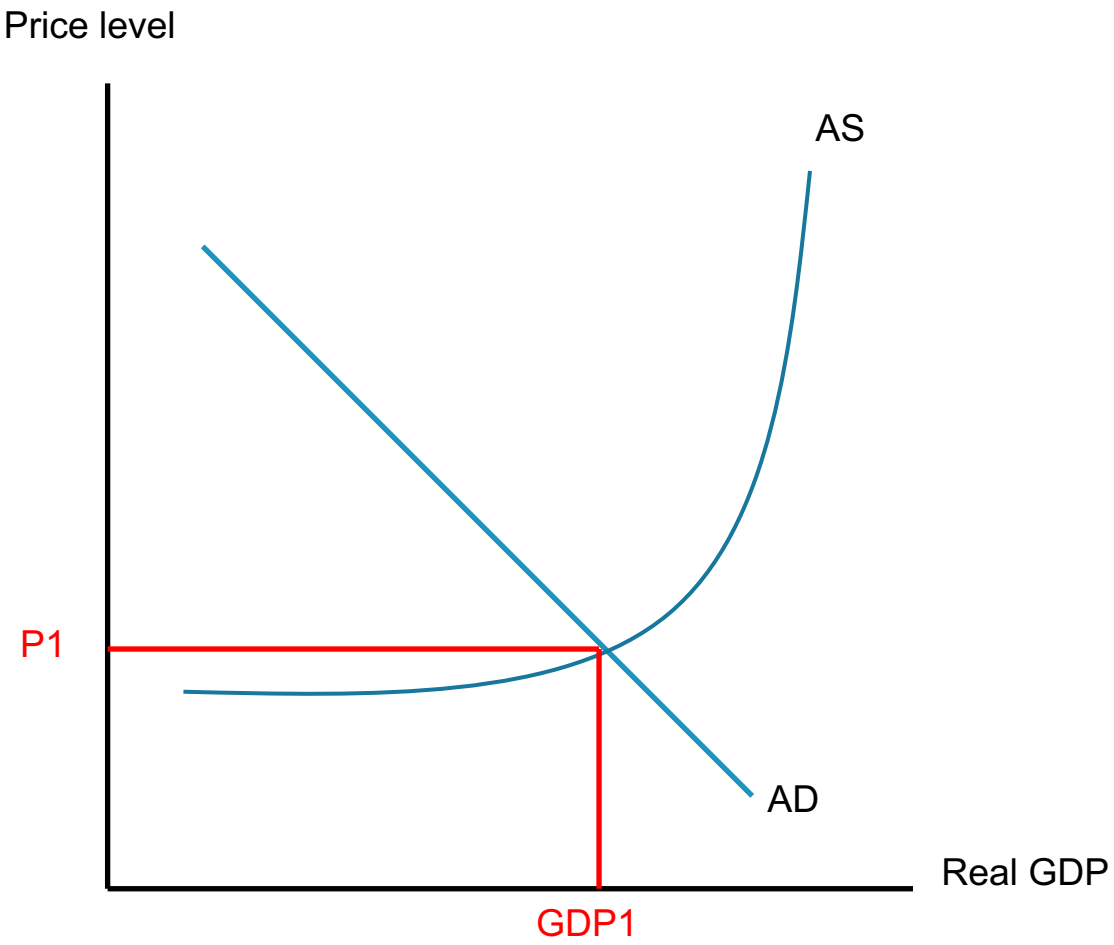
AD and AS



AD and AS

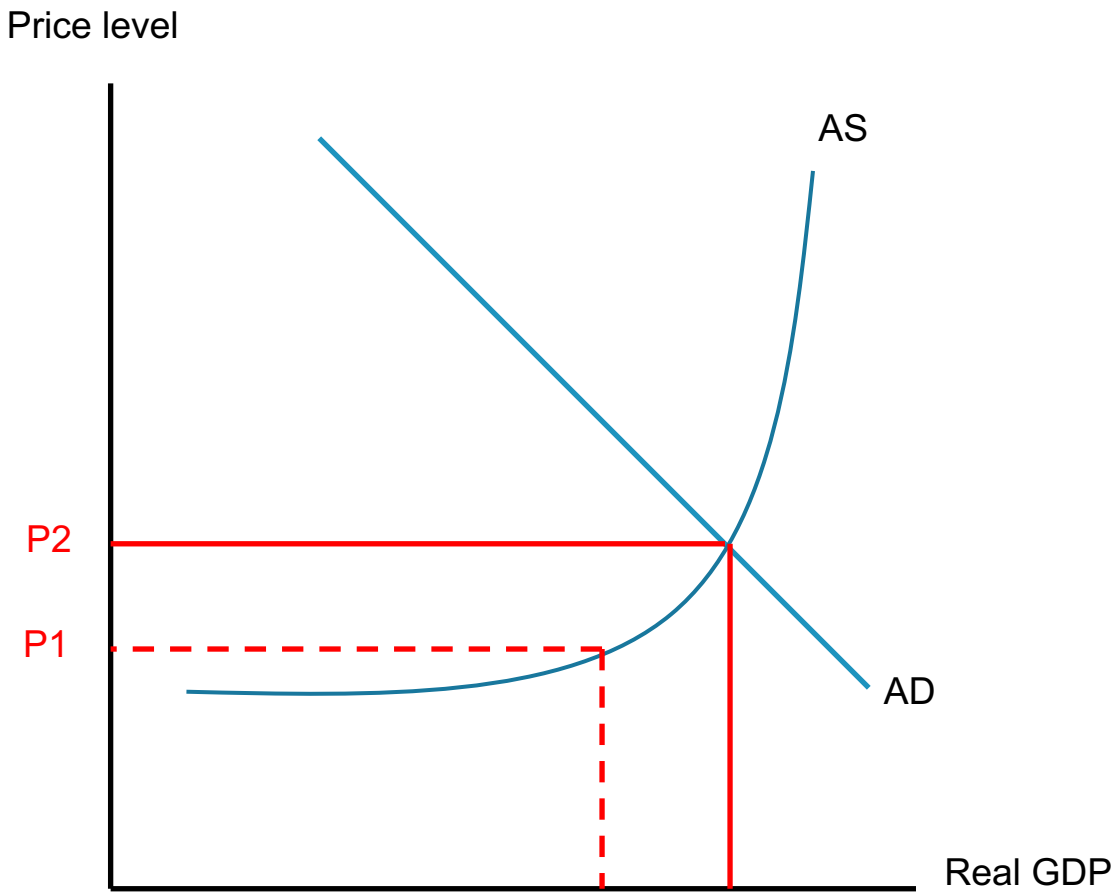


AD and AS



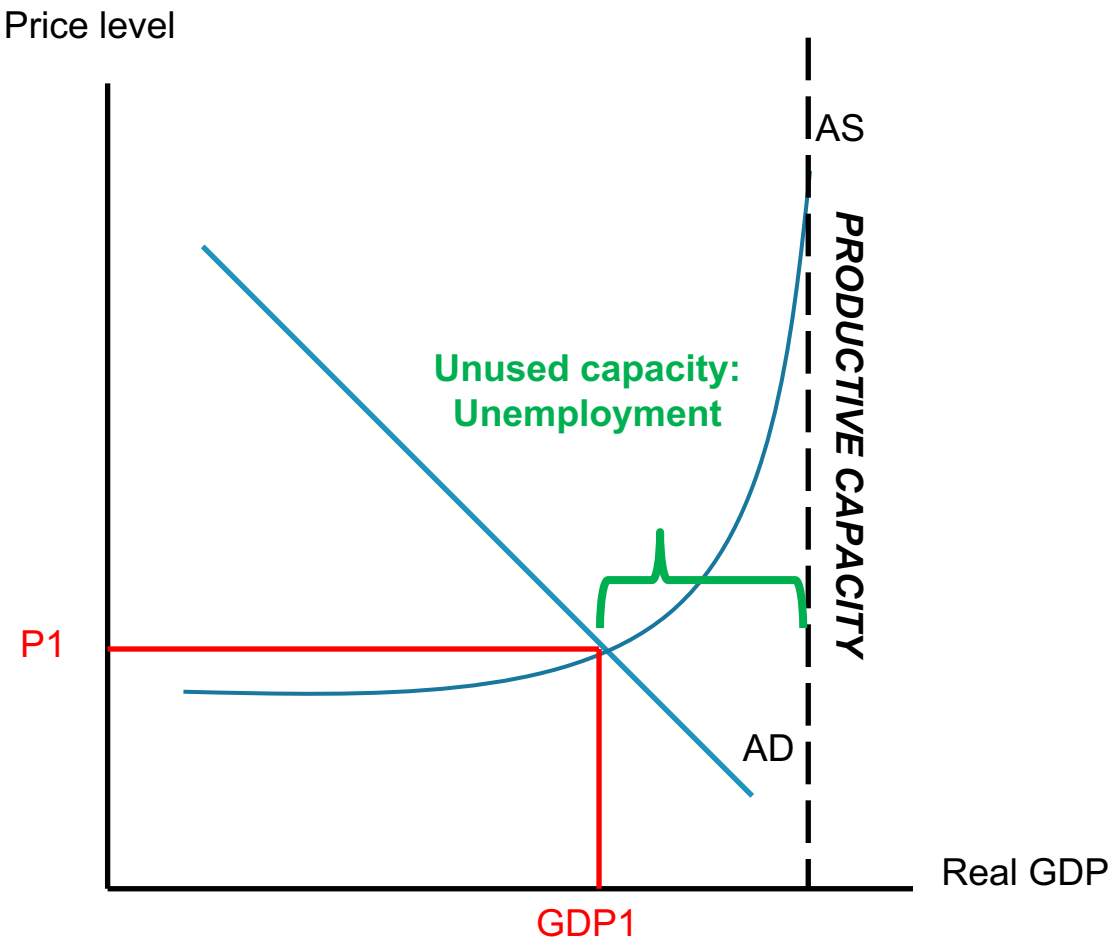
AD and AS

Prices



AD and AS

Unemployment



Macroeconomic Goals

- The government wants to **increase standards of living**, and one of the ways they do this is by achieving **three key domestic macroeconomic goals**:
  - The goal of strong and sustainable growth
  - The goal of price stability
  - The goal of full employment

These goals are the basis not only for Area Of Study 2 in Unit 3, but also a lot of Unit 4!

Price Stability

- How do we measure the price level in the economy?

INFLATION

"a sustained increase in the average price level over time"

- We measure the level of inflation i.e. how quickly prices are increasing using the **Consumer Price Index (CPI)**:
  - An index measure of a basket of consumer goods, weighted according to their importance to the consumer
  - Assigned a value of 100 in the first year

Price Stability

"The Australian government's goal for price stability is to achieve an inflation rate of 2% to 3% per annum, as measured by the Consumer Price Index (CPI) on average over time."

Why does the government want to do this?

- If our prices are growing very quickly, people would rather buy products from somewhere else (international competitiveness)
- Maintain the purchasing power of our currency

Why doesn't the government have a goal of 0%?

- Incentivise purchases to be completed now

Let's suppose the CPI for ATARLand was **100** in the financial year starting July 2017. In the next financial year, the CPI was **104**.

How do we calculate the rate of inflation?

$$Inflation = \frac{CPI_{Year\ X+1} - CPI_{Year\ X}}{CPI_{Year\ X}} \times 100\%$$

$$= \frac{104 - 100}{100} \times 100\% = \mathbf{4}\%$$

Assuming ATARLand has the same goal for price stability as Australia, is ATARLand currently meeting their goal?

Strong and Sustainable Economic Growth

- How do we measure economic growth?

GROSS DOMESTIC PRODUCT

"a measure of the total value of production in the economy"

- Example:

If ATARLand produced only 500 ice creams in 2018 worth $1 each, and nothing else, the GDP would be **$500**.

- However, we just learnt that prices are increasing over time! This means our normal, or "nominal" GDP measure is distorted:
  - Suppose in 2019, ATARLand still produces only 500 ice creams, but now the price is $2 each. The GDP is now **$1000**, even though the level of production did not change!

- This is why we need a different measure: **Real GDP!**
- This is a measure of GDP with the effects of inflation taken out. (Not going to cover how this is done today!)

Macroeconomic Goals

Strong and Sustainable Economic Growth

Growth in
nominal GDP

Growth in
real GDP

Strong and Sustainable Economic Growth

"The Australian government's goal for strong and sustainable growth is to achieve a rate of 3% to 4% average growth in real GDP per annum, on average over time."

Why does the government want to do this?

- More production means higher incomes and greater access goods and services: material standards of living!
- Staying close to our maximum productive capacity keeps unemployment low

Why doesn't the government want super high growth?

- Accelerates inflation
- Limited capacity: how would we fund that growth?

Strong and Sustainable Economic Growth

ATARLand had a real GDP of $500 in 2017. In 2018, the real GDP is $570.

How do we calculate the rate of growth in real GDP?

$$\%growth = \frac{GDP_{Year\ X+1} - GDP_{Year\ X}}{GDP_{Year\ X}} \times 100\%$$

$$= \frac{570 - 500}{500} \times 100\% = \mathbf{14\%}$$

Full Employment

- What does it mean to be employed?

To be considered employed in VCE Economics, a person needs to be of **legal working age** (currently 15 years old) and must perform **more than one hour of paid work per week**.

Then, is everyone else unemployed?

NO! "UNEMPLOYED" ≠ "NOT EMPLOYED"

To be considered unemployed, a person needs to be of legal working age, **willing and able** to work, **actively seeking employment**, and not working or working less than one hour a week.

- Why are people unemployed?
  - **Structural unemployment:** People whose skills do not match what employers want, for example, someone who only gives lectures to 5 year olds.
  - **Seasonal unemployment:** People whose skills are not sought after at certain times of year, for example, people who work making Christmas decorations.
  - **Frictional unemployment:** People who are temporarily unemployed because they are in between jobs.
  - **Hard core unemployment:** People who have certain characteristics that make it very difficult for them to find a job.
  - **Cyclical unemployment:** Unemployment that arises simply due to low levels of Aggregate Demand in the economy.

Full Employment

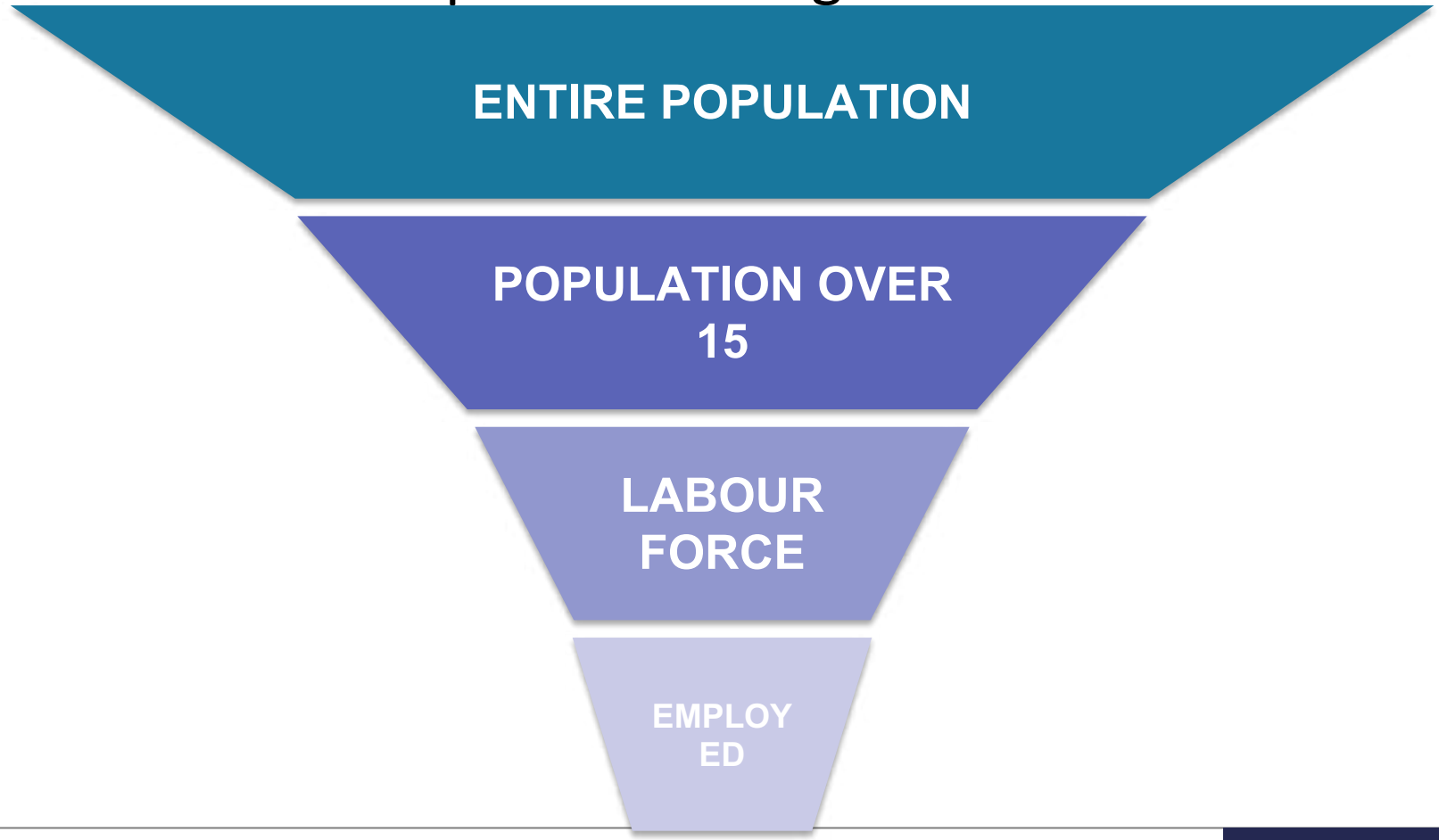
"The Australian government's goal for full employment is to eliminate cyclical unemployment and achieve an unemployment rate of around 5%, as close as possible to the Non-Accelerating Inflation Rate of Unemployment (NAIRU).

- The NAIRU is the lowest rate of unemployment possible without running into excessive inflationary pressures.
- For our purposes, we assume that NAIRU = natural unemployment.

Macroeconomic Goals

Full Employment

Whilst people generally find it easy to understand the theory this topic, measurement is quite confusing for students.



- There are 1000 people living in ATARLand
- 800 of them are over 15 years old
- 500 of them are employed
- 100 of them are unemployed

$$Labour\ force = employed + unemployed = 500 + 100$$
$$= \mathbf{600}$$

$$Participation\ rate = \frac{labour\ force}{population\ over\ 15} \times 100\% = \frac{600}{800} \times 100\% = \mathbf{75\%}$$

$$Unemployment\ rate = \frac{unemployed\ persons}{labour\ force} \times 100\% = \frac{100}{600} \times 100\% = \mathbf{16.7\%}$$

Key skills and Advice

- DONE WITH THEORY

- It’s great to have this theory knowledge, but how are we going to prove to teachers that you know your stuff?

- Writing a great answer
- Using examples
- Making a perfect graph

Writing a good answer

- Some questions can be easily answered, e.g. “What is the Consumer Price Index?”
- More analytical questions might require some extra thought, e.g. “What is the impact of removing tariffs on the goal of full employment?”
- Let’s have a look at a few answers for this question:

Writing a good answer

"What is the impact of removing tariffs on the goal of full employment?

a) Removing tariffs means that imports are cheaper. This would decrease employment, since consumers will buy imports and workers won't have to make local products anymore.

b) This is likely to hinder the goal of full employment.
Removing tariffs will decrease costs of production for importers. This will lead to an increase in the supply of imports and therefore lower import prices. Consumers would thus move demand away from local products towards imported substitutes, as they would suffer a smaller opportunity cost. This will lead to a decreased derived demand for labour, and thus create unemployment. As the goal of full employment is to obtain an unemployment rate as close as possible to the NAIRU of 5%, this would hinder the goal of full employment.

Key skills and Advice

Wider knowledge

- In the exam, you will be expected to have knowledge of important Australian economic events from the two preceding years (for you: 2022 and 2023)
- Important for both questions and answers

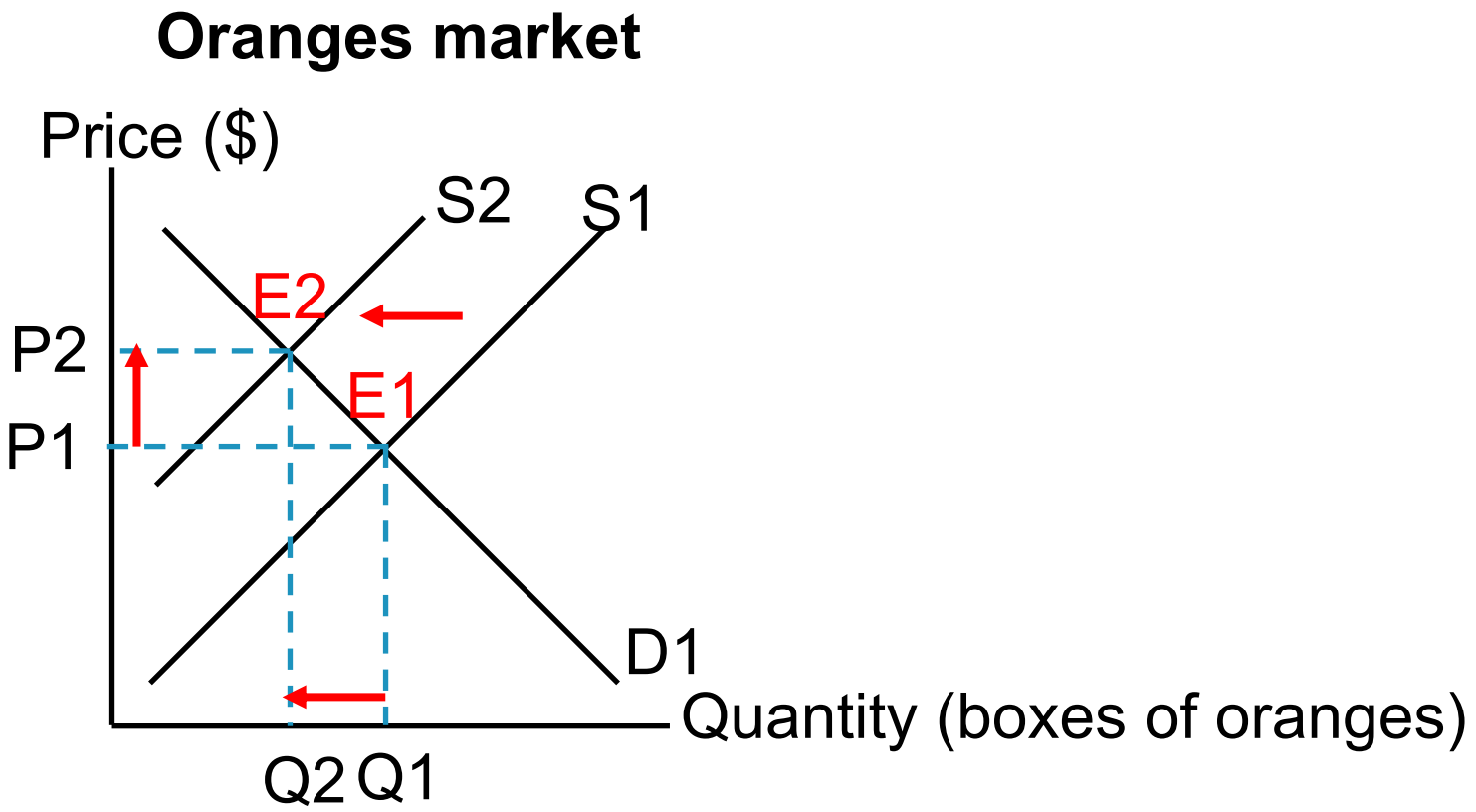
More relevant in Unit 4, but something you should start thinking about now!

- Events…

- The cash rate
- Recent changes to the cash rate
- Recent economic issues discussed in government
- The government's plans (the Budget)
- The success and failures of recent policy decision
- General knowledge

Using Examples

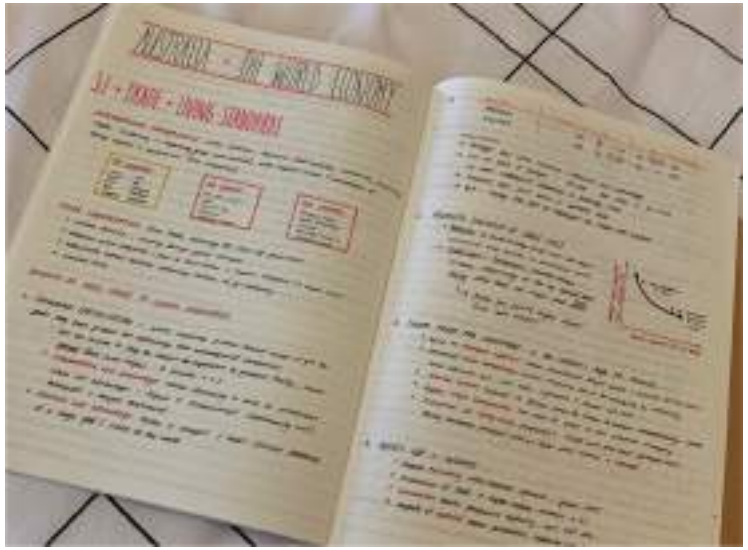
- Finding examples: this isn't an English subject, don't worry about intensely memorising quotes! But please:
  - Watch or read the news
  - THE BUDGET (May)
  - Talk to your teacher
- Using examples:
  - If the question asks for an example
  - Even if the question doesn't ask, do it if you can
  - It doesn't have to be aMaziNg: just start with "for example…"


Oranges market
Price ($)
S2
S1
E2
E1
P2
P1
D1
Quantity (boxes of oranges)
Q2
Q1

- So now you have a bunch of knowledge, but you still have a lot to learn!
- **All year:**
  Summarise notes in your own words
  Compile a list of any important events
  Practice writing “exam style” answers
- **Term 1:**
  Get used to graphs
  Get use to calculating percentage change, proportions, etc.

Study tips

- Keep on top of content
  - It's really hard to learn stuff without knowing what you need to know
  - Summarise content from your textbook to cut down on what you need to remember
  - Use the summary part of each chapter to cut down on what you need to know
  - Use your study design to decide what you need to know



Key skills and Advice

Study tips

- Make sure you aren't just reading your notes
- Reading a textbook is super boring but also its really hard to tell the difference between recalling and recognising information
- Have some method of actively recalling info
  - Flashcards
  - Make your own questions
  - Quiz your friends/ class

Quizlet

Key skills and Advice

Study tips

- Read the news!
- Stay up to date with what's going on in the world
- Now is especially important; political/ economic events are often what the exam is based off and the examiners write the exam during the first part of the year

- Have somewhere to keep up to date stats, budget initiatives etc.
- Having up to date information is really important for later on / especially for the exam
- Ideas
  - Word doc with table for stats
  - Quizlet/ flash card deck
  - Shared page with class

Key skills and Advice

Study tips

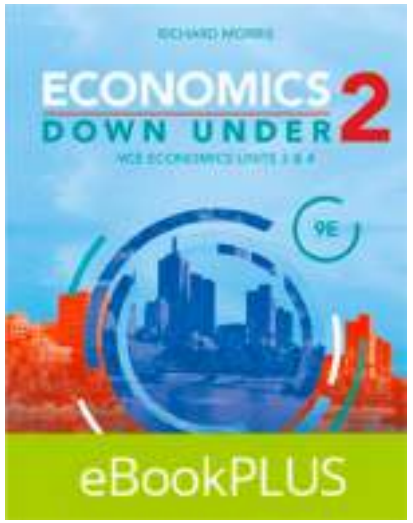
- Work hard but keep it efficient
- Do
  - Condense down notes
  - Use flashcards for definitions, concepts, graphs etc.
  - Use practice questions before SACs
- Avoid
  - Doing an unnecessary amount of questions (especially if they start to repeat)
  - Re-reading the textbook excessively

- Do practice questions consistently
- Try to avoid last minute study sessions
- Make sure you practice all the skills of answering questions so you don't get out of the habit of it

Key skills and Advice

Study tips

- Use as many resources as possible
- There's a tonne of stuff out there, including
  - YouTube
  - Your teachers/tutors
  - Study notes
  - Google
  - Textbook questions
  - Previous SAC preparation questions
  - Practice exams
  - Write your own- collaborate with friends to make a mini-sac with solutions

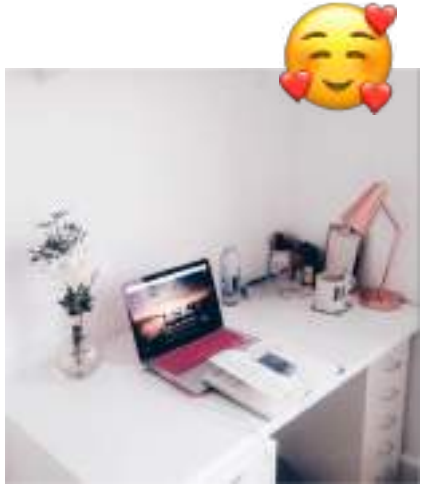


VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

Key skills and Advice

Study tips

- Without going to school, everything just blurs into one
- Try to have a distinct work space e.g. a desk or a spot at the dining table that you only do work at (aka no Netflix/ Tik Tok binging)
- This kinda trains your brain into being in ‘work mode’ at that spot but allows you to relax when you’re not actively working

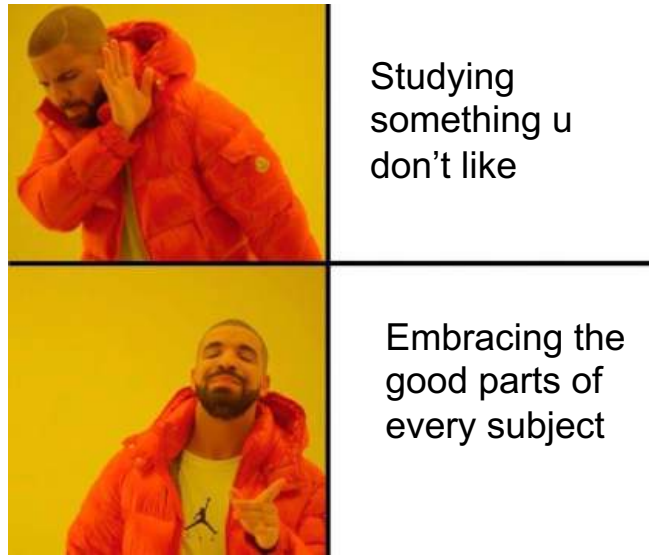


Key skills

- Microeconomics
  - Key concepts and basic terms
  - Demand and supply
  - Market failure and government intervention
  - Living standards
- Macroeconomics + Study tips
  - Aggregate demand and aggregate supply
  - The three goals of government
  - Key skills
  - Study tips

Reminders

- Have fun with it!



Questions?